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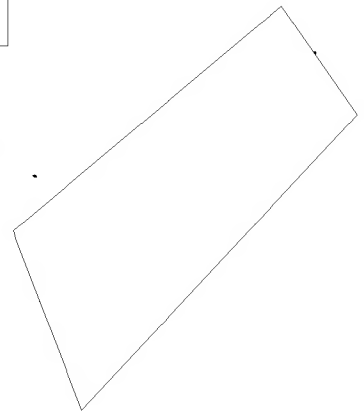
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14 March 1983

MEMORANDUM FOR THE RECORD

SUBJECT: OECD: Impact of Lower Oil Prices

The following tables were forwarded to the Office of Global Issues to become part of a larger study requested by Deputy Assistant Charles Schotta, Department of the Treasury.



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**CONFIDENTIAL**Notes on the Tables

The attached tables show our estimates of the impact of reduced oil prices on several key macroeconomic variables for each of seven major industrial countries and for the OECD as a whole.

The baseline estimates for each country -- except the United States -- are based on CIA projections, but adjusted upward to reflect the impact of the Treasury Department's somewhat higher projections of US economic growth in 1984 and 1985 than those used in our work. The baseline estimates assume that world oil prices average \$33.50 a barrel, 1983-85.

In the alternative scenarios, we use the CIA's Linked Policy Impact Model (LPIM) to assess the impact of falling oil prices. In these scenarios the average world oil price is assumed to drop to the indicated price 1983, then rise in line with the US inflation rate in 1984 and 1985. We also assume that governments do not alter fiscal or monetary policies in response to the oil price declines.

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## OECD: IMPACT ANALYSIS

Changes measured from baseline estimates, which assume world price of oil of \$33.50, 1983-85.

| Baseline Estimates  | <u>1983</u> | <u>1984</u> | <u>1985</u> |
|---|-------------|-------------|-------------|
| Real GNP Growth Rate:   | +1.9        | +3.5        | +3.8        |
| Percent Change in GNP Deflator                                  | +7.4        | +8.3        | +8.3        |
| Unemployment Rate:  | +9.2        | +9.2        | +8.9        |
| Current Account Balance:  | -44.4       | -43.0       | -46.8       |
| Percent Change in Rate of Growth of Real GNP                    |             |             |             |
|   | <u>1983</u> | <u>1984</u> | <u>1985</u> |
| \$30 oil  | +0.4        | +0.1        | 0.0         |
| \$25 oil  | +0.9        | +0.6        | +0.2        |
| \$20 oil  | +1.1        | +1.2        | +0.6        |
| \$15 oil  | +1.4        | +1.8        | +1.1        |
| Percent Change in the Level of the GNP Deflator                 |             |             |             |
| \$30 oil  | -0.6        | +0.2        | +0.3        |
| \$25 oil  | -1.6        | -0.4        | +0.2        |
| \$20 oil  | -2.7        | -0.9        | 0.0         |
| \$15 oil  | -3.8        | -1.5        | -0.1        |
| Difference in the Unemployment Rate                             |             |             |             |
| \$30 oil  | -0.1        | -0.1        | -0.2        |
| \$25 oil  | -0.1        | -0.4        | -0.6        |
| \$20 oil  | -0.1        | -0.5        | -0.9        |
| \$15 oil  | -0.1        | -0.6        | -1.3        |
| Difference in the Current Account Balance (Billions of Dollars) |             |             |             |
| \$30 oil  | +12.2       | -.9         | -11.2       |
| \$25 oil  | +29.0       | +11.4       | -5.6        |
| \$20 oil  | +30.6       | +11.0       | -9.7        |
| \$15 oil  | +32.4       | +11.0       | -9.1        |

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**CONFIDENTIAL****GERMANY: IMPACT ANALYSIS**

Changes measured from baseline estimates, which assume world price of oil of \$33.50, 1983-85.

| Baseline Estimates  | <u>1983</u> | <u>1984</u> | <u>1985</u> |
|---|-------------|-------------|-------------|
| Real GNP Growth Rate:   | +0.2        | +2.6        | +3.1        |
| Percent Change in GNP Deflator                                  | +9.5        | +10.4       | +10.3       |
| Unemployment Rate:  | +3.7        | +4.0        | +4.0        |
| Current Account Balance:  | +6.1        | +8.5        | +6.4        |
| Percent Change in Rate of Growth of Real GNP                    | <u>1983</u> | <u>1984</u> | <u>1985</u> |
| \$30 oil  | +0.4        | +0.3        | +0.0        |
| \$25 oil  | +1.0        | +0.9        | +0.3        |
| \$20 oil  | +0.7        | +1.7        | +1.0        |
| \$15 oil  | +0.5        | +2.6        | +1.7        |
| Percent Change in the Level of the GNP Deflator                 |             |             |             |
| \$30 oil  | -0.8        | -0.2        | +0.2        |
| \$25 oil  | -2.0        | -0.7        | +0.1        |
| \$20 oil  | -3.1        | -1.3        | -0.2        |
| \$15 oil  | -4.3        | -2.0        | -0.5        |
| Difference in the Unemployment Rate                             |             |             |             |
| \$30 oil  | -0.2        | -0.4        | -0.5        |
| \$25 oil  | -0.4        | -1.0        | -1.4        |
| \$20 oil  | -0.3        | -1.1        | -2.0        |
| \$15 oil  | -0.2        | -1.4        | -2.7        |
| Difference in the Current Account Balance (Billions of Dollars) |             |             |             |
| \$30 oil  | +1.1        | -0.3        | -0.7        |
| \$25 oil  | +2.2        | +0.0        | -0.9        |
| \$20 oil  | +0.9        | -1.2        | -2.4        |
| \$15 oil  | -0.4        | -2.4        | -3.4        |

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## JAPAN: IMPACT ANALYSIS

Changes measured from baseline estimates, which assume world price of oil of \$33.50, 1983-85.

| Baseline Estimates  | <u>1983</u> | <u>1984</u> | <u>1985</u> |
|---|-------------|-------------|-------------|
| Real GNP Growth Rate:   | +3.0        | +4.7        | +5.0        |
| Percent Change in GNP Deflator                                  | +2.7        | +3.5        | +3.2        |
| Unemployment Rate:  | +2.4        | +2.5        | +2.6        |
| Current Account Balance:  | +13.0       | +10.3       | +10.5       |
| Percent Change in Rate of Growth of Real GNP                    | <u>1983</u> | <u>1984</u> | <u>1985</u> |
| \$30 oil  | +0.7        | +0.1        | -0.3        |
| \$25 oil  | +1.6        | +0.8        | -0.1        |
| \$20 oil  | +1.8        | +1.6        | +0.4        |
| \$15 oil  | +2.2        | +2.5        | +1.0        |
| Percent Change in the Level of the GNP Deflator                 |             |             |             |
| \$30 oil  | -0.8        | +0.2        | +0.4        |
| \$25 oil  | -1.9        | 0.0         | +0.6        |
| \$20 oil  | -2.9        | -0.3        | +0.7        |
| \$15 oil  | -3.9        | -0.6        | +0.7        |
| Difference in the Unemployment Rate                             |             |             |             |
| \$30 oil  | -0.1        | -0.1        | -0.1        |
| \$25 oil  | -0.2        | -0.4        | -0.5        |
| \$20 oil  | -0.2        | -0.5        | -0.7        |
| \$15 oil  | -0.3        | -0.7        | -0.9        |
| Difference in the Current Account Balance (Billions of Dollars) |             |             |             |
| \$30 oil  | +5.9        | +4.4        | +3.3        |
| \$25 oil  | +11.5       | +9.3        | +6.9        |
| \$20 oil  | +16.7       | +17.0       | +16.7       |
| \$15 oil  | +20.9       | +22.9       | +24.2       |

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## UNITED KINGDOM: IMPACT ANALYSIS .

Changes measured from baseline estimates, which assume world price of oil of \$33.50, 1983-85.

| Baseline Estimates  | <u>1983</u> | <u>1984</u> | <u>1985</u> |
|---|-------------|-------------|-------------|
| Real GNP Growth Rate:   | +2.2        | +2.9        | +3.0        |
| Percent Change in GNP Deflator                                  | 6.1         | 8.0         | 8.5         |
| Unemployment Rate:  | 13.1        | 13.2        | 12.8        |
| Current Account Balance:  | 5.2         | 3.1         | 2.4         |
| Percent Change in Rate of Growth of Real GNP                    | <u>1983</u> | <u>1984</u> | <u>1985</u> |
| \$30 oil  | +0.2        | +0.1        | +0.1        |
| \$25 oil  | +0.4        | +0.3        | +0.2        |
| \$20 oil  | +0.3        | +0.6        | +0.5        |
| \$15 oil  | +0.3        | +1.0        | +0.8        |
| Percent Change in the Level of the GNP Deflator                 |             |             |             |
| \$30 oil  | -0.6        | -0.1        | 0.0         |
| \$25 oil  | -1.4        | -0.5        | -0.4        |
| \$20 oil  | -2.2        | -0.9        | -0.8        |
| \$15 oil  | -3.0        | -1.4        | -1.2        |
| Difference in the Unemployment Rate                             |             |             |             |
| \$30 oil  | 0.0         | -0.1        | -0.1        |
| \$25 oil  | -0.1        | -0.2        | -0.3        |
| \$20 oil  | -0.1        | -0.2        | -0.5        |
| \$15 oil  | -0.1        | -0.3        | -0.7        |
| Difference in the Current Account Balance (Billions of Dollars) |             |             |             |
| \$30 oil  | -1.5        | -1.4        | -1.1        |
| \$25 oil  | -3.5        | -3.2        | -3.0        |
| \$20 oil  | -6.8        | -6.2        | -6.1        |
| \$15 oil  | -5.0        | -6.2        | -6.4        |

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**CONFIDENTIAL****FRANCE: IMPACT ANALYSIS**

Changes measured from baseline estimates, which assume world price of oil of \$33.50, 1983-85.

| Baseline Estimates  | <u>1983</u> | <u>1984</u> | <u>1985</u> |
|---|-------------|-------------|-------------|
| Real GNP Growth Rate:   | +0.6        | +2.7        | +3.0        |
| Percent Change in GNP Deflator                                  | +10.0       | +8.9        | +8.0        |
| Unemployment Rate:  | +9.6        | +10.1       | +10.3       |
| Current Account Balance:  | -8.9        | -5.9        | -5.4        |
| Percent Change in Rate of Growth of Real GNP                    | <u>1983</u> | <u>1984</u> | <u>1985</u> |
| \$30 oil  | +0.4        | -0.1        | -0.1        |
| \$25 oil  | +0.9        | +0.2        | +0.0        |
| \$20 oil  | +1.0        | +0.5        | +0.3        |
| \$15 oil  | +1.2        | +0.6        | +0.5        |
| Percent Change in the Level of the GNP Deflator                 |             |             |             |
| \$30 oil  | -0.4        | 0.0         | +0.1        |
| \$25 oil  | -1.0        | -0.4        | -0.2        |
| \$20 oil  | -1.7        | -0.9        | -0.7        |
| \$15 oil  | -2.4        | -1.2        | -0.9        |
| Difference in the Unemployment Rate                             |             |             |             |
| \$30 oil  | -0.1        | -0.1        | -0.1        |
| \$25 oil  | -0.2        | -0.5        | -0.4        |
| \$20 oil  | -0.3        | -0.5        | -0.6        |
| \$15 oil  | -0.3        | -0.6        | -0.8        |
| Difference in the Current Account Balance (Billions of Dollars) |             |             |             |
| \$30 oil  | +1.6        | +1.9        | -4.7        |
| \$25 oil  | +2.6        | +1.5        | +0.3        |
| \$20 oil  | +4.5        | +2.1        | +0.5        |
| \$15 oil  | +5.4        | +2.9        | +1.5        |

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**CONFIDENTIAL****CANADA: IMPACT ANALYSIS**

Changes measured from baseline estimates, which assume world price of oil of \$33.50, 1983-85.

| Baseline Estimates  | <u>1983</u> | <u>1984</u> | <u>1985</u> |
|---|-------------|-------------|-------------|
| Real GNP Growth Rate:   | +1.6        | +2.6        | +3.5        |
| Percent Change in GNP Deflator                                  | +7.5        | +6.9        | +6.8        |
| Unemployment Rate:  | +13.0       | +14.0       | +13.9       |
| Current Account Balance:  | +1.5        | +1.8        | +2.8        |
| Percent Change in Rate of Growth of Real GNP                    | <u>1983</u> | <u>1984</u> | <u>1985</u> |
| \$30 oil  | +0.2        | +0.2        | +0.1        |
| \$25 oil  | +0.4        | +0.6        | +0.4        |
| \$20 oil  | +0.5        | +1.0        | +0.8        |
| \$15 oil  | +0.6        | +1.5        | +1.2        |
| Percent Change in the Level of the GNP Deflator                 |             |             |             |
| \$30 oil  | -0.5        | -0.2        | 0.0         |
| \$25 oil  | -0.8        | -0.4        | -0.2        |
| \$20 oil  | -1.3        | -0.7        | -0.3        |
| \$15 oil  | -1.9        | -1.1        | -0.5        |
| Difference in the Unemployment Rate                             |             |             |             |
| \$30 oil  | -0.1        | -0.2        | -0.3        |
| \$25 oil  | -0.1        | -0.4        | -0.7        |
| \$20 oil  | -0.2        | -0.6        | -1.2        |
| \$15 oil  | -0.2        | -0.8        | -1.7        |
| Difference in the Current Account Balance (Billions of Dollars) |             |             |             |
| \$30 oil  | -0.1        | 0.0         | -0.1        |
| \$25 oil  | -0.3        | +0.2        | +0.3        |
| \$20 oil  | -1.0        | -0.1        | +0.5        |
| \$15 oil  | -1.6        | -0.2        | +0.9        |

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## ITALY: IMPACT ANALYSIS

Changes measured from baseline estimates, which assume world price of oil of \$33.50, 1983-85.

| Baseline Estimates  | <u>1983</u> | <u>1984</u> | <u>1985</u> |
|---|-------------|-------------|-------------|
| Real GNP Growth Rate:   | +0.4        | +3.1        | +4.0        |
| Percent Change in GNP Deflator                                  | +15.8       | +15.0       | +15.0       |
| Unemployment Rate:  | +10.1       | +10.1       | +9.6        |
| Current Account Balance:  | -3.9        | -2.7        | -1.7        |
| Percent Change in Rate of Growth of Real GNP                    |             |             |             |
|   | <u>1983</u> | <u>1984</u> | <u>1985</u> |
| \$30 oil  | +0.7        | +0.1        | -0.5        |
| \$25 oil  | +1.6        | -0.5        | -0.1        |
| \$20 oil  | +2.0        | -0.4        | +0.1        |
| \$15 oil  | +2.5        | 0.0         | +0.1        |
| Percent Change in the Level of the GNP Deflator                 |             |             |             |
| \$30 oil  | -0.7        | 0.0         | +0.3        |
| \$25 oil  | -1.8        | -0.4        | +0.2        |
| \$20 oil  | -3.0        | -0.8        | +0.1        |
| \$15 oil  | -4.3        | -1.2        | +0.0        |
| Difference in the Unemployment Rate                             |             |             |             |
| \$30 oil  | -0.1        | 0.0         | 0.0         |
| \$25 oil  | -0.2        | -0.1        | -0.1        |
| \$20 oil  | -0.2        | -0.1        | -0.1        |
| \$15 oil  | -0.2        | 0.0         | -0.1        |
| Difference in the Current Account Balance (Billions of Dollars) |             |             |             |
| \$30 oil  | +0.8        | +0.1        | -0.5        |
| \$25 oil  | +1.9        | +0.9        | -0.3        |
| \$20 oil  | +2.3        | +1.1        | -0.5        |
| \$15 oil  | +2.7        | +1.3        | -0.4        |

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**CONFIDENTIAL****UNITED STATES: IMPACT ANALYSIS**

Changes measured from baseline estimates, which assume world price of oil of \$33.50, 1983-85.

**Baseline Estimates**

|                                | <u>1983</u> | <u>1984</u> | <u>1985</u> |
|--------------------------------|-------------|-------------|-------------|
| Real GNP Growth Rate:          | +2.8        | +3.9        | +4.0        |
| Percent Change in GNP Deflator | +5.2        | +4.6        | +4.6        |
| Unemployment Rate:             | +10.2       | +10.1       | +9.5        |
| Current Account Balance:       | -36.0       | -42.0       | -48.0       |

**Percent Change in Rate of Growth of Real GNP**

|          | <u>1983</u> | <u>1984</u> | <u>1985</u> |
|----------|-------------|-------------|-------------|
| \$30 oil | +0.4        | +0.2        | -0.1        |
| \$25 oil | +0.9        | +0.8        | +0.3        |
| \$20 oil | +1.4        | +1.5        | +0.7        |
| \$15 oil | +2.0        | +2.2        | +1.2        |

**Percent Change in the Level of the GNP Deflator**

|          |      |      |      |
|----------|------|------|------|
| \$30 oil | -0.8 | 0.0  | +0.4 |
| \$25 oil | -1.9 | -0.4 | +0.5 |
| \$20 oil | -3.3 | -0.8 | +0.5 |
| \$15 oil | -4.8 | -1.3 | +0.6 |

**Difference in the Unemployment Rate**

|          |      |      |      |
|----------|------|------|------|
| \$30 oil | -0.1 | -0.2 | -0.3 |
| \$25 oil | -0.2 | -0.6 | -1.0 |
| \$20 oil | -0.3 | -0.9 | -1.7 |
| \$15 oil | -0.4 | -1.4 | -2.6 |

**Difference in the Current Account Balance (Billions of Dollars)**

|          |      |       |       |
|----------|------|-------|-------|
| \$30 oil | +2.5 | -2.4  | -5.8  |
| \$25 oil | +5.8 | -3.6  | -12.1 |
| \$20 oil | +6.1 | -7.8  | -21.0 |
| \$15 oil | +6.4 | -12.1 | -29.2 |

Orig - Addressee  
 4 - IMC/CB  
 1 - EURA  
 2 - EURA Prod.  
 1 - EURA/EI  
 2 - EURA/EI/EI  
 2 - Author

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